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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 001084

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SUBJECT: CITIBANK MOVES REGIONAL OFFICE FROM BAHRAIN TO
DUBAI

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Classified By: Ambassador William T. Monroe. Reason: 1.4 (B)(D)

¶1. (C) Summary. Citibank earlier this month transferred its regional headquarters from Bahrain to Dubai. Although the move received little attention here, Citibank Middle East Managing Director Mohammed Al-Shroogi, a prominent Bahraini and Shura Council member, told the Ambassador that the move reflects a shift in the regional financial landscape as neighboring GCC countries open their doors to, and actively solicit, foreign banks. This development highlights the challenges facing Bahrain as it tries to compete with its wealthier neighbors, and underscores how important the FTA is for Bahrain and its economic future. End summary.

¶2. (U) Citibank on June 1 appointed Mohammed Al-Shroogi as its corporate and investment banking head for the Middle East, based in Dubai, as well as its chief country officer for the UAE. Al-Shroogi, a Bahraini citizen, had until then served as Managing Director for the Middle East out of Citibank's office in Bahrain, where he was also chief country officer.

¶3. (C) Al-Shroogi has moved to Dubai, but during a brief visit back to Bahrain on June 15 the Ambassador called on him to get his take on the reasons for the shift in the regional headquarters, and the implications for Bahrain as a regional financial center. Al-Shroogi said that as a Bahraini citizen it was tough for him to make the move, but wearing his Citibank hat he felt there was no choice. Especially on the investment banking side, he said, Dubai is now the place to be in the region. Eight leading investment banks have recently established major presences there. He compared Dubai's situation to that of London in Europe. London is more expensive and perhaps less ideal a locale than other European cities, but if you are a banker in Europe, London is where you want to be. Dubai is now much more expensive than Bahrain, living conditions are not as pleasant anymore, and good office space is harder and harder to find, but if you want to attract top banking talent, you have to be in Dubai.

¶4. (SBU) In addition, he continued, the financial environment is changing in the individual GCC countries. When Bahrain established itself as a financial center in the 1970s, foreign banks were not welcomed in countries like Kuwait, Qatar, and Saudi Arabia. Bankers set themselves up in Bahrain, and serviced the region from there. Now, the

situation is changing. Citibank was offered a full-banking license in Kuwait last summer, and recently commenced operations there. It will soon set up in Qatar (former Citigroup CEO Sandy Weill is expected to come for the grand opening), and hopes to get into the Saudi market. Its office in Bahrain was gradually being reduced to a local office for the Bahrain market.

15. (C) Al-Shroogi (protect) said that he personally delivered the unhappy news of the move to Dubai to Crown Prince Shaikh Salman, who has been given stewardship over Bahrain's economic reform efforts. The Crown Prince was not happy. Al-Shroogi explained to the Crown Prince that in New York City Citibank has its corporate headquarters in pricey Manhattan, but keeps its backroom banking operations in Queens, where it is cheaper and where many employees work. He envisioned a similar situation developing in the Gulf, where Citibank will have its regional headquarters in Dubai, but move/keep many of its backroom banking operations in Bahrain, which is cheaper. He said that in the short-term he did not envision a draw-down of employees in Bahrain, an important consideration for Bahrain. Not surprisingly, he noted, the Crown Prince did not particularly like the analogy of Bahrain as the "Queens of the Gulf."

16. (SBU) Al-Shroogi stated that Bahrain, in addition to cheaper housing and office space, has another advantage over Dubai: a more developed local (that is, Bahraini) workforce in the financial sector. Expansion in Dubai will be hampered by local requirements to hire a certain percentage of local citizens. It is difficult to find qualified Emiratis. So it is possible, he said, that Citibank may shift some positions from Dubai to Bahrain even as it moves its regional headquarters in the other direction.

17. (SBU) With Bahrain losing some of its luster as a regional
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hub for conventional and investment banking, Al-Shroogi stated, Islamic banking will play an increasingly important role for the Bahraini economy. In this area, he did not see Bahrain's position slipping. He fully expected Bahrain to remain the regional center for Islamic banking.

18. (C) More broadly, Al-Shroogi worried that the Bahrain economy could follow the path that Gulf Air has taken recently, slowly losing some of its regional position as wealthier neighbors try to develop their own industries where Bahrain has traditionally been strong. Gulf Air has lost two of its four original owners (Qatar and Abu Dhabi) as those countries build their own airlines. Alba will face increased competition as Oman and others build their own aluminum factories. Dubai and Qatar are fast building up their own financial sectors. Bahrain is trying to develop its tourism sector, but investors will be scared away and go elsewhere in the Gulf if Islamic parliamentarians continue to appear threatening to the industry.

19. (C) Al-Shroogi said that there will be great pressure on the Crown Prince to produce. "Everyone says that the economy is in the hands of the son," he said, meaning that the King has focused on political reform while turning economic issues over to the Crown Prince. "Young Bahrainis look up the Crown Prince," he added, "but he has to produce." The Economic Development Board, which falls under the CP's purview, must move quickly.

110. (C) Comment: The move of Citibank's regional office to Dubai received surprisingly little notice here, but it is certainly a blow to a country which has long taken pride in its role as a regional financial center, and where one of the signature office building projects now under construction is called the "Bahrain Financial Harbor." This move highlights the challenges facing the Bahraini government as it tries to compete with its wealthier neighbors, especially Qatar and the UAE, who are ready to spend to build infrastructure and

attract business. It also underscores the importance of the FTA as a way to help Bahrain compete and attract investment. Although the FTA is still weeks away from implementation, there are a few signs that it may in fact help bring interest in investment to Bahrain. In recent weeks, we have learned of an American automotive parts manufacturer that wants to build a plant in Bahrain, using aluminum from Alba, to make auto parts for the U.S. market. And Microsoft is looking at establishing a regional office in Bahrain that could bring some 25-30 executive-level employees to Bahrain. Both companies have cited the FTA as an important factor in their decision-making.

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